

Lámfalussy Lectures Conference 2026 – Keynote Speech Martin Kocher

18 May 2026

Why our changing world needs a strong euro

Dear Governor Varga, dear Mihály, esteemed colleagues, ladies and gentlemen,

It is a great honour to address you at the 2026 Lámfalussy Lectures Conference. Thank you for this kind invitation! I would like to congratulate you on choosing such a timely topic: global imbalances in a changing world order.

Allow me, for the sake of argument, to view the current world through the lens of a medium-sized, innovative, export-oriented company in Europe – one of those many successful ones we have in Hungary, Austria, and other European countries. Let us take a very specialised auto part producer with a couple of hundred workers in Hungary. For this fictitious company, let's call it "Onlyup" for ease of reference, the last decades have always been challenging, and adaptation to change was the secret of its success.

Onlyup has expanded over the decades, it has developed new patents, it has explored new markets in the world, it has had better and worse years, but it was one of these medium-sized industrial companies that guaranteed stability in the rural area where it is located. Overall, both its management and its employees knew that they could weather exogenous shocks, and the overall expectations and trajectory was positive, at least until 2020.

Of course, many other companies failed to cope with the changes over the years, but the many Onlyups in our countries were able to employ those workers whose companies went out of business. They contributed to the public impression that the overall economic situation is generally following an upward trend; solid growth levels and better living standards were the norm.

For several years, however, the people at Onlyup have had the impression that our world is changing at a speed that feels unprecedented – at least to our generation and to us in Europe. Demographic change leads to higher costs and deteriorating public finances, technology changes quickly, and most of the new corporate giants that develop and market these technologies are based outside Europe. A new wave of protectionism makes it harder for Onlyup to sustain its international presence. A new wave of interventionism creates additional costs for Onlyup, adding to a cost disadvantage in production due to high energy prices and quickly growing wage costs. And very recently, new imbalances have arisen: Rules, international norms, and agreements appear to have been replaced in some places by transactional considerations, announced on social media channels, creating political imbalances on top of structural economic ones. Obviously, it is our task to address these imbalances – these fears of people at Onlyup and many others in our countries – in a calm, analytical, and self-confident manner, with the necessary economic foresight.

We all know that Alexandre Lámfalussy was a convinced European who believed that Europe must be built through cooperation, shared responsibility, and collective decision-making – not through unilateralism. Pure power games do not align well with our modern European tradition, after very bad

experiences over centuries with such games, and they do not align well either with our shared democratic values and the rule of law. Therefore, I see it as European competitive and comparative advantage that we continue to build on common rules and agreements – a stable and predictable rule-based order. And in this context, let me focus on a strong European institution that was based on clear rules and on considerable foresight several decades ago and that has been developed further over the past decades – an institution which is one of the cornerstones of European integration. I am talking about Economic and Monetary Union – EMU for short.

EMU has clearly shown the overridingly positive effects of commonly agreed rules and sound agreements. It has added to stability in Europe. It has helped the Onlyups – especially those in the euro area – to reduce the costs of international transactions in Europe. It has added to the attractiveness of the EU with its Single Market. And it has provided Europe with a level playing field with other large currency areas such as the USA, China, or Japan.

Given that this conference is dedicated to one of the fathers of the euro, my speech will focus on why and how the euro can play this important stabilising role, both globally and for Europe. Of course, I will also point to areas where we need to improve and strengthen the euro. Last but not least, I would like to share my thoughts on prospects for euro adoption in those EU countries that have not yet introduced the euro.

Euro enjoys trust internationally

Within a short period of time – 25 years – the euro has been established as the common currency of the world’s largest consumer market. It has also become the second-most important international currency. One fifth of global foreign exchange reserves are held in euro, as such the euro is coming second to the US dollar with a share of slightly less than 60%. The attractiveness of the euro has further increased recently, as evidenced by international debt issuance and foreign investor demand for euro area assets. When we look at trade invoicing, the US dollar remains number one globally. Yet, in the EU two thirds of trade is invoiced in euro.¹

This shows that people have a lot of trust in the euro, both abroad and at home. The independence of the ECB, a major source of that trust, is an international example, and the euro area has been steadily growing geographically. Let me emphasise that trust in the euro is high also in EU member states that have not yet introduced the euro. We can see this from our annual OeNB Euro Survey: In most EU countries of Central, Eastern and Southeastern Europe that still have a currency of their own other than the euro, people generally trust the euro more than their local currencies. According to the survey, in Hungary less than 40% of respondents reported in late 2025 that they expect the forint to be stable over the next five years, while more than 70% expected the euro to be stable.²

¹ See ECB (2025).

² There is one exception, Czechia, where we see no discernible difference. See OeNB Report 2025/13; results for the 2025 wave are forthcoming in July 2026.

Should the euro take on an even stronger international role?

Thus, should the euro area – with a lot of self-confidence – follow a strategy to expand its international role? Or should it even, at some stage, become an alternative to the, up to now, dominant US dollar? An alternative that would serve not only European interests, but also the rest of the world well?

First, the expansionary fiscal policy of recent US administrations and the debt ceiling rules which have been leading to frequent fiscal cliffs raise questions about the long-term sustainability of US government debt. But long-term sustainability is a necessary condition for a safe asset. For the euro, we have an important mechanism in place to ensure this sustainability: the Stability and Growth Pact (SGP). The SGP is not perfect, but at least the rules are clear. And the EU countries have so far been largely following the rules – both out of self-interest to create fiscal space and to avoid excessive deficits or reduce them according to the rule book. But although Europe has established rules for long-term fiscal sustainability, it does not provide a common safe asset.

Second, some voices have raised concerns recently that the US administration is using the international position of the US dollar for its geopolitical interests.³ Indeed, the US has been able to effectively impose financial sanctions in the past based on the dollar's strength. And it has increasingly used this instrument in the past decade. This becomes problematic if such sanctions are imposed to support purely national interests rather than punishing violations of the international rules-based order.

Third, what if the US is no longer willing to take on the “exorbitant duty” of insuring the rest of the world in times of crisis? This “exorbitant duty” is the flip side to the exorbitant privilege of being able to finance external deficits cheaply abroad in normal times. It refers to net wealth transfers when risk is on. In such crisis times, foreigners tend to buy US assets, the US dollar appreciates, and related valuation effects cause a stabilising net wealth transfer from the US to the rest of the world.⁴ We might have to start thinking what role the euro could play in such a situation and whether we would be willing to accept such a role.

The obvious and not so obvious benefits of euro area membership

Let me now turn to Europe. There are obvious and not so obvious benefits of euro area membership. The Onlyups in the euro area have clearly benefitted from the euro. But so have many travellers and tourists in the euro area – in particular in countries that still have a high cash ratio in transactions such as Austria, but also customers paying by card, as card networks charge significant foreign exchange fees.

Above all, and obviously, the changeover to the euro leads to lower transaction costs and it substantially reduces foreign exchange rate risk. What is more, a switch to the euro allows a better cross-border comparability of prices, which can fuel competition and support cross-border trade flows.

The benefits of euro adoption, however, go far beyond the benefits of simply switching from a national currency to the euro. Within the euro area, diversification of savings and financing opportunities in a large and integrated financial market is possible. Further, with relevance for the economies of Central,

³ See Fishman (2025).

⁴ See Gourinchas and Rey (2022).

Eastern and Southeastern Europe, the domestic pool of savings may become larger if household savings that are currently held abroad are repatriated.

At times of heightened uncertainty or crises, euro area members and their banks have access to financial support through the European Stability Mechanism and access to ECB financing or liquidity, which goes beyond the means which non-members have at their disposal.

Further, participation in the banking union leads to improved financial stability through more harmonised supervision for large international banking groups, which is particularly relevant in Central, Eastern and Southeastern Europe.

Turning towards central banks' mandates, the adoption of the euro may entail the import of monetary policy credibility and help anchor inflation expectations in a better way. Participation in the euro area also means more peer pressure. Euro area participants engage in more economic policy coordination and face tighter fiscal rules to support their policy effectiveness.

Finally, countries that participate in the euro area have a stronger role in shaping common policies. This is important for two reasons: first, it is relevant for potential new members, as decisions made by euro area institutions can have a substantial impact on their economies, even when they stay outside. Second, it is relevant for the euro area, as decision-making in its committees becomes enriched by more diverse views. If one applies common theorems of committee decision-making for tasks that have an ex post evaluation criterion on their decision quality, the larger and the more diverse the committees are, the better the decisions are, as long as the cost of decision-making is not growing more quickly than the benefits of enlargement. Committees are always preferable to "one-person shows" in monetary policy.⁵

Could Hungary benefit from a euro introduction?

This brings me to our host country, Hungary. Should Hungary consider a change to its monetary regime, how would it be affected by the benefits of the euro which I have listed?

Let me start with transaction costs: The euro is the most important invoicing currency for Hungary's external trade. Eliminating these costs would lead to notable savings for households and businesses and could have a beneficial impact on cross-border trade flows.

Turning to foreign exchange risk, this was almost exclusively eliminated for households with foreign currency loans in 2015. Yet, foreign currency loans continue to play an important role for firms, while their debt liabilities towards non-residents – including foreign parent companies – create an additional exposure. Since the overwhelming portion of this foreign currency debt is very likely denominated in euro, it would automatically become local currency debt upon the introduction of the euro.

Clearly, these and other benefits do not instantaneously materialise upon euro adoption but accrue over time during the ongoing convergence process.

⁵ See Blinder (2004, 2007).

Might there be downsides of euro adoption?

There is no such thing as a free lunch... Having talked about the potential benefits of euro adoption, it is only fair to also point out potential drawbacks and concerns about giving up one's national currency.

The loss of monetary autonomy and the ability to adequately react to idiosyncratic shocks with monetary policy tools rank high in this list. However:

First, euro adoption is preceded by a closely monitored economic and institutional convergence process and harmonisation of policies to mitigate cyclical and structural misalignments. In cyclical terms, the output gap and inflation of many non-euro EU members are increasingly aligned with the euro area.

Second, the monetary autonomy in European EU member states outside the euro area may be more limited than it appears at first sight. Take, for instance, Denmark with its currency peg to the euro.

Third, let me remind you that monetary policy always faces trade-offs:⁶ Trade-offs are the very bread and butter of monetary policymaking. Even a hypothetical, fully homogeneous currency area cannot escape the “mother of all monetary policy trade-offs”, that is, the short-run trade-off between inflation and unemployment embodied by the Phillips curve. It is the job of monetary policymakers to take decisions subject to the constraints of many trade-offs.

Other reservations against euro adoption centre around the asymmetric impact of external shocks. Uneven transmission can transform a policy decision that is, in principle, appropriate for all members into a blurred signal of varying strength across countries, regions, sectors and economic agents. This is a legitimate concern. Fortunately, the increased availability of granular and high-frequency data allows us to look at monetary policy transmission under an ever more powerful microscope.⁷ Further, we have tools to address these issues, if necessary, that is, if they really pose a substantial problem, such as the Eurosystem's Transmission Protection Instrument and Outright Monetary Transactions.

Finally, there are often fears that the changeover to the euro might cause additional inflation. According to available estimates from recent euro introductions in Central, Eastern and Southeastern Europe, these fears are usually exaggerated. Euro adoption seems to have led to only small and temporary additional inflation increases.

Final remarks

Let me conclude:

The euro area has started with 11 members. Now 21 countries share the euro as their common currency. Europe can and must provide a global pillar of stability based on its sound, rules-based and stable institutions. In particular, Europe can build on the euro, further strengthen the international role of the euro, enlarge the euro area within Europe and thereby promote prosperity in Europe and in its neighbourhood.

⁶ See Kaplan et al. (2018, 2023).

⁷ See Holm et al. (2021).

It goes without saying that the non-euro area EU members of course decide on their own about adopting the euro. After all, a currency is more than a technical aspect of an economy. It contributes to the national identity, and it provides symbolic value. I remember how difficult it was for many Austrians to part from the schilling in 2002. [Actually, we still exchange schillings for euro at the Oesterreichische Nationalbank, although the amounts are decreasing from year to year. However, there are still people in Austria that find schilling banknotes and coins at home, in the attic or hidden in some odd places.] And, obviously, the initial costs of a currency regime change are non-negligible for firms like Onlyup and also for consumers.

I am of course not in a position to make any recommendations today. For Austria, being a member of a larger club with full access to all safeguards that the euro affords increases resilience and strengthens our country economically. This is particularly important in the current volatile and uncertain global environment that is characterised by advantages of size and scale. Obviously, Hungary will be a welcome member of the euro family, once it sustainably fulfils the convergence criteria and takes the deliberate political decision to join.

Let me conclude on a positive note: Times are uncertain, and prospects are less optimistic than several decades ago. Structural change is difficult to master, companies such as Onlyup are struggling, and the perception often is that Brussels and the capitals do not pursue necessary reforms quickly and efficiently enough. At the same time, the European Union has always been a complex institution, with different views, speeds, and approaches.

And now, the positive note is in order: The EU has embarked on large-scale projects over the last decades – for instance, the Single Market, the Schengen area, the euro, and above all, peace within the EU. With these projects, the EU has largely been successful, and, as a consequence, additional countries want to join the EU. I am convinced that the completion of these projects, alongside the introduction of new large-scale projects such as the Savings and Investment Union, will be beneficial to all members states and thus be feasible in the not so distant future. We probably have to be a bit more self-confident – in the spirit of Alexandre Lámfalussy – on what we can achieve together, in the interest of all European citizens.

Thank you!

Check against delivery!

References

- Allinger, K., E. Beckmann, S. Bergmann, M. Koch, J. L. Weinel. 2025.** [OeNB Euro Survey in Central, Eastern and Southeastern Europe: first results for 2024](#). OeNB Report 2025/13.
- Blinder, A. S. 2004.** The quiet revolution: Central banking goes modern. Yale University Press.
- Blinder, A. S. 2007.** Monetary policy by committee: Why and how? *European Journal of Political Economy* 23(1). 106–123.
- ECB. 2025.** [The international role of the euro](#).
- Fishman, E. 2025.** Chokepoints: American Power in the Age of Economic Warfare. Portfolio.
- Gourinchas, P.-O. and H. Rey. 2022.** Exorbitant Privilege and Exorbitant Duty. CEPR Discussion Paper No. DP16944. <https://ssrn.com/abstract=4026850>
- Holm, M. B., P. Paul and A. Tischbirek. 2021.** The transmission of monetary policy under the microscope. *Journal of Political Economy* 129(10). 2861–2904.
- Kaplan, G., B. Moll and G. L. Violante. 2018.** Monetary policy according to HANK. *American Economic Review* 108(3). 697–743.
- Kaplan, G., B. Moll and G. L. Violante. 2023.** The very model of modern monetary policy. Finance & Development. International Monetary Fund.